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# State Enterprises and Their Organisation

By HON. F. W. EGGLESTON

IN this article the main principles upon which state enterprises have been established and maintained are stated, but it has been possible in the space allotted to treat in detail only those enterprises of the State of Victoria.

## I. VARIETIES OF STATE ACTION

The origin of state enterprises in Australia is explained in the article on "Australian Loan and Developmental Policy." Here we are concerned with the typical machinery and organisation which grew up to carry out such activities.

State policy throughout Australia presents a picture of extraordinary variety. Queensland and Western Australia have indulged in experiments with many different kinds of undertakings, but did not enter upon the necessary preliminary detailed examination into ways and means. New South Wales has been less expansive and, having a larger and more compact population, more successful. South Australia has followed rather along the lines of Victoria, but climatic conditions have caused her carefully organised schemes to go awry. In Victoria, state utilities have been well planned and the practice has been so systematic that her enterprises have done remarkably well. She has avoided to a large extent the more dangerous experiments such as retail shops and competitive undertakings and has preferred to run services likely to become monopolies.

So throughout Australia we find every type of organisation, from departmental management to independent bodies; there are departmental committees and boards, statutory com-

mittees, elected boards, and statutory corporations. Some state instrumentalities do not carry on business, but perform some other economic purpose. Thus there are the Industries Assistance Board (Western Australia), the Bureau of Sugar Experiment Stations (Queensland), the Development and Migration Commission, and the Committee of Scientific and Industrial Research (Commonwealth). State banking of various kinds is an important form of enterprise in each state. Pools have been set up in an attempt to solve the marketing problem for primary products. In different states one may find state-owned coal mines, retail shops, agricultural colleges, dockyards, meat works, housing schemes, and so forth. Railways and developmental schemes are common to all.

## II. ADMINISTRATION OF STATE ENTERPRISES

To organise this multiplicity of enterprises a multiplicity of methods have been used. The main problems to be faced are those of political and financial control. Where an enterprise is managed directly by a Government department its officials are likely to be political rather than industrial experts. Their work is open to much public criticism, which may result in drastic changes in policy with the election of successive Parliaments. Under such a system officials cannot have much initiative, and therefore cannot be held responsible for the success or the failure of the undertaking. In spite of these factors, many departmental activities (e.g., the Victorian State Accident Assurance Office and the Titles Office) have been very successful.

The second main problem is that of financial control. Many even of the greater public enterprises, such as the railways, have no independent funds, but have to obtain grants from the Treasury. Experience shows that to carry on a well-planned developmental policy covering a period of years, an undertaking must know exactly where it stands financially. Financial dependence has led to work being started and then abandoned because the necessary money was not available.

These factors were not allowed for when enterprises were first organised.

The elaboration of an orderly and consistent policy of administration, free from ambiguities and with a recognition of the distinct and separate nature of trading enterprises has yet to be made and applied.<sup>1</sup>

At first when an enterprise was taken over by the state, the Minister in charge of the particular department would detail members of the staff to run the business. The organisation of a government department is unsuited for an industrial enterprise because the need for maintaining political control and preventing speculation and risk taking is destructive of business initiative. So it was necessary to find more efficient ways of management. While some departmental activities remain, other departments have directors with some executive independence, and there are departmental boards, statutory committees with special functions detailed by the legislature, and, lastly, the independent corporation created to perform an independent function.

#### THE STATUTORY CORPORATION

The most important development in the organisation of the public services is the statutory corporation. This has been most completely developed in Victoria. It is of great interest to

<sup>1</sup> Bridgen, *International Labour Review*, 1927.

political and social students, since throughout the world publicists are seeking an agency which will not be subject to the limitations of political control, to undertake work for the state. The main features of the statutory corporation are: (1) independent existence of the instrumentality; (2) executive initiative and discretion within the charter and the powers of the enabling act; (3) the appointment of experts as full-time officers who do the work of the corporation and who exercise executive powers. Different statutory corporations vary in constitution and the degree of independence, and these variations are important.

#### EXECUTIVE

The directorate of a statutory corporation may consist either of full-time executives or citizens sitting like a board of directors. These are usually nominated by the Government. In some cases qualifications may be necessary; i.e., they must represent a particular interest or belong to a certain profession. Sometimes the boards are elected or nominated by other bodies. Thus, members of the Metropolitan Board of Works (Melbourne) are appointed by the suburban municipal councils.

#### TENURE

The tenure of directors or managers may be for a fixed period, but the practice varies. They may hold office *quamdiu se bene gesserit*, i.e., for life. Sometimes the Government has power of removal without giving any reason, or again removal may be only for cause, or on an address in one or both Houses of Parliament.

In some cases there is power of suspension, but if the suspension is not confirmed by Parliament the officer is restored. There is always some power of removal for an officer who has be-

trayed his trust. Where positions are elective, the tenure is of course for a period, and there is no power of removal except for cause.

#### FINANCE

The financial basis and powers of these enterprises vary too. They may have an endowment or fund to manage independently, or they may have only assets or equipment on which they can borrow. The state may not consider either course available but may supply funds as they are needed.

#### CONNECTION WITH THE TREASURY

The state may create a corporation and raise loans for it. If it is a developmental activity and unable to pay its way, every deficiency must be made up from the state budget. The undertaking is therefore tied to the Treasury for money, its receipts paid into it, and its expenses disbursed therefrom. Its independence is thus distinctly qualified. But independent management through a definite financial provision, is vital to the success of an enterprise. The efficiency of certain Victorian municipal activities has been largely due to this independence. The Melbourne Harbour Trust, among others, raises money on the credit of its undertakings and charges. The managers are personally responsible and take care to be within limits. Developmental utilities such as the Closer Settlement Board, the Railways Commissioners, the State Rivers and Water Supply, and others are not in this position and none has been consistently able to pay its way.

It is state policy to take nonbusiness risks in developing the country by means of railways, road, irrigation, or land settlement. The managers are chronically dependent on the Treasury and are not responsible.

There is a curious anomaly in the

position of the Closer Settlement Board. Its loans are raised through the state but it has separate funds. The Act directs that all money shall be paid into and all payments out of the closer settlement fund. Closer settlement has been almost invariably a financial failure in Victoria. The loans have been spent on buying land and making advances to settlers. Settlers, however, have not always repaid advances in the provided instalments; hence the funds become deficient and interest has to be paid by raising new loans. The funds are not included in the budget and have not come under Parliamentary review. Hence the principle of financial responsibility has been so confused that the maximum of unsoundness has resulted.

#### CONTROL OF STAFF

Most state activities have control over the recruiting and dismissing of their staff. The railways, however, employ a huge staff which has been able to obtain various protective provisions by legislation. Railway Discipline and Railway Wage Fixing Boards are in operation. The Railway Commissioners have power of dismissal and have been able to stimulate the spirit of service so that a high degree of efficiency has resulted. In most enabling acts, the employment of men over a certain salary, the appointment of new officers, and promotion are subject to control by the Minister.

#### POLITICAL CONTROL

The attempt to eliminate political control from public undertakings in Victoria has not been altogether successful. Some final authority is necessary to determine questions of policy and to appoint managers. Unfortunately there is an almost irresistible desire to interfere in smaller matters. Hence the Minister or Governor-in-Council

(i.e., the Cabinet) has considerable powers of control. Thus, authority must be obtained for signing contracts above a certain amount, usually £500 or £1,000. The Government may also have power to insist that local rather than imported materials shall be purchased.

### III. MUNICIPAL ADMINISTRATION

In considering enterprises, municipal undertakings should be distinguished from those directly organised by the state. Throughout the evolution of municipal government, the corporate form has usually been adopted for municipalities: councillors are elected by ratepayers. Very small municipalities are the rule in Australia. The system has been criticised because the problems handled transcend municipal boundaries, but it has been singularly successful. The intimate touch between ratepayer and councillor has led to honest and economical administration. This has made up for the efficiency lost owing to the smallness of the unit.

Some more extended unit, however, was necessary in the great cities of Australia. Melbourne, for instance, would in any other part of the world be governed by one large council, but instead it is split up into between thirty and forty municipalities, each with its own council, staff and equipment, and buildings. The fact that there was a corporate life which could not find expression in these small units led to a demand for an organ covering the whole area, and the Greater Melbourne Municipality was suggested. The suburban councils are, however, strong and sufficiently well established in public opinion to resist the demand. But small local councils could not handle general public services, such as water supply, sewerage, and harbours. This problem has been met by the establishment of *ad hoc* corporations,

each taking a service or group of services. In most countries these would be managed by a committee of the council and would be open to the objections to departmental management. In Melbourne, statutory corporations are used. These boards vary in constitution and character. Some are representative, e.g., the Melbourne and Metropolitan Board of Works; others are nominated, e.g., the Melbourne and Metropolitan Tramways Board. Generally they conform to the description given in Section II.

### IV. VICTORIAN STATE ENTERPRISES

Victoria affords the best opportunity of studying the workings of state enterprises (Table I). The principle adopted is that only services of a general nature likely to become monopolies shall be taken over. Usually a statutory corporation is set up, more or less independent of political control, and given power to run the service. Some small activities in Victoria are run by Government departments. The chief of these are the beet sugar factory at Maffra and the Government Cool Stores. There is a State Coal Mine managed by the Victorian Railways Commissioners, who constitute a statutory commission. Smaller undertakings are: the state sawmill and timber seasoning works, run by the Forests Commission; certain state farms; wire netting factories under the Prison Department; and farms managed by the Education Department for elementary agricultural education. Most of these make small losses.

Further light can best be thrown on the Victorian system by reviewing the several undertakings. The main ones are as follows:

1. Developmental Activities
  - (a) Closer Settlement Board
  - (b) Victorian Railways Commission

TABLE I—SUMMARY OF VICTORIAN STATE ENTERPRISES

Name of Activity	Functions	Number and Qualifications of Commissioners	Tenure	Loan Indebtedness	Annual Revenue	Annual Expenditure
State Rivers and Water Supply Commission	Administration of water rights, water supply, drainage and flood protection	3 { 1 professional } 2 engineers	5 years, removable on address of both houses	(1927) £21,715,069	£635,940	£1,279,437
Victorian Railway Commission	Administration of state railways and coal mines; limited rights for motor transport	3 experts	5-7 years, removable as above	(1928) £73,748,548	(1928) £13,239,433	£13,300,624
Closer Settlement Board	Purchase, subdivision, and settlement of estates	3 professional and officials	5 years, removable by Governor-in-Council	Closer settlement, £8-758,919; Soldier Settlement, £24,621,585		
Country Roads Board	Maintenance national roads; construction and maintenance main roads; construction of developmental roads	3 { 1 engineer } 2 clerical	As above	£8,853,167	£1,535,442	£1,416,918
State Electricity Commission	Control of electricity works; generation and supply of electricity	4 { 1 chairman } 1 engineer 2 citizens	7 years, removable on address of both houses	£14,625,670	£1,862,155	£1,845,803
State Savings Bank	Savings Bank with Credit Foncier and housing advance departments	7 citizens	<i>Quamdiu se bene gesserit</i> , removable on address	Credit foncier loans, £24,000,000; deposits, £66,000,000	£3,407,000	£2,963,382
Melbourne Harbour Trust	Administration of Port of Melbourne	5 citizens	5 years, removable on address of both houses	£3,655,915	£731,286	£362,256
Melbourne and Metropolitan Board of Works <sup>a</sup>	Sewerage, water supply, and surface drainage of metropolitan area	Commissioners	3 years	£21,625,120	£1,722,487	£1,570,578
Melbourne and Metropolitan Tramways Board	Tram transit in metropolitan area and motor transport	Citizens	Chairman 5 years. Others 3 years. Removable by Governor-in-Council	£5,464,366	£2,435,548	£2,552,423
Metropolitan Fire Brigades Board	Fire protection of metropolitan area	Citizens	2 years			
Titles Office <sup>b</sup>	Registration and guarantee of titles				Fees	Not a trading undertaking
Forestry Commission	Care and administration of forests and forest development	3 { 2 experts } 1 chairman	5 years removable on address of both houses	£390,086		

<sup>a</sup> Elected by certain metropolitan municipalities. All others are appointed by the Governor-in-Council.<sup>b</sup> The above are all Statutory Corporations except this one, which is a Government department.

- (c) State Rivers and Water Supply Commission
- (d) Country Roads Board
- (e) Forestry Commission
- 2. General Economic Functions
  - (a) State Accident and Assurance Office
  - (b) Titles Office
  - (c) State Electricity Commission
  - (d) State Savings Bank
- 3. Municipal Utilities
  - (a) Melbourne and Metropolitan Board of Works
  - (b) Melbourne and Metropolitan Tramways Board
  - (c) Melbourne Harbour Trust
  - (d) Metropolitan Fire Brigades Board
- 4. Social Functions
  - (a) Licences Reduction Board
  - (b) Hospital and Charities Board

In a footnote a list is given of state enterprises in Australia. This is not exhaustive, but gives the chief undertakings.<sup>2</sup>

<sup>2</sup> *Commonwealth.* Railways; Post; Telegraph; Telephone; Radio; Commonwealth Bank; Commonwealth Oil Refineries (partly).

*Victoria.* Given in the text.

*New South Wales.* Railways and Tramways; Sydney Harbour Trust; Metropolitan Water, Sewerage and Drainage Board; Government Insurance Office; Metropolitan Meat Industry Board; Savings Bank; Dockyard, Walsh Island; Brickworks; Tourist Bureau and Resorts; Monier Pipe and Reinforced Concrete Works; Metal Quarries; Irrigation; and several inoperative undertakings.

*Queensland.* Stations; Butchers Shops (being disposed of); Fish Supply; Cannery; Produce Agency; Hamilton Cold Stores; Railways; Savings Bank.

*South Australia.* Railways; Waterworks and Sewers; Savings Bank; Harbours and Marine; Irrigation; Forests.

*West Australia.* Agricultural Bank; Railways and Tramways; Steamship Service; Implement Works; Wyndham Meat Works; Electric Power Station; Water and Sewerage; Forests; Harbour Trusts; Insurance; Albany Cold Stores and Butter Factory.

*Tasmania.* Railways; Hydroelectric Supply; Tasmanian Government Shipping Department; Insurance; Agricultural Bank.

#### CLOSER SETTLEMENT BOARD

This Board manages the schemes for the purchase and settlement of land (a) for returned soldiers, and (b) for civilian settlers. There are three members, all ex-Civil Servants. The staff is recruited from the public service and some members do public service and settlement work jointly. It has no loan authority but has funds under its own control. Closer settlement has an unfortunate history in Victoria, for the state takes on a responsibility which it cannot discharge. It decides the area of the allotment, the capital to be invested and so forth, and hence becomes responsible for successful settling. Experience shows that unless the settler bears the full responsibility himself, he is almost certain to fail.

#### STATE RIVERS AND WATER SUPPLY COMMISSION

This is a body of three commissioners, a chairman—who is an executive officer with administrative experience—and two engineers. It has complete control of staff, but its finance is tied to the Treasury. It is responsible for the head works and distribution of water and also for the settlement of people on the land. It has never been financially successful, because its rates are less than cost, and the interest rates it charges less than those at which it can borrow. Irrigation has added to the wealth of the community and maintained population on the land, but irrigators have not paid the full cost of the service received. The irrigation works are of an extraordinary complexity. There are 10,000 miles of channels and storage capacity to the extent of 2,000,000 acre feet. The engineering and administrative problems of the Commission have been well handled. As a settlement authority it has had difficulties and the crops

grown on irrigated land have been difficult to market.

#### VICTORIAN RAILWAYS COMMISSION

The Victorian railways have an invested capital of £73,000,000, and over 4,000 miles of line. There are three Commissioners, all with technical qualifications. They control the staff, which has many privileges. The Commissioners have executive independence, but may be controlled by a written minute from the Government, when any loss must be borne by the Treasurer. The policy has been to build railways in advance of settlement, so losses are common.

#### THE COUNTRY ROADS BOARD

This Board was established to make roads in districts outside the jurisdiction of small municipalities. It therefore takes over and constructs main and developmental roads and maintains state highways. There are three members, two with clerical qualifications, and an engineer. The Board has control of staff and separate funds, but no independent loan authority.

#### THE FORESTRY COMMISSION

The Forestry Commission is a statutory corporation having the care and the administration of forests and forest development. It is managed by three Commissioners, two of whom are not forestry experts. It has complete control of its staff, and a complicated financial connection with the Treasury which is hard to explain, has nothing to recommend it, and prevents financial responsibility from falling on the Commission. In forestry the economic cycle extends over the period of one life, and work is done for succeeding generations. Therefore, it is peculiarly the function of a state organisation with security and continuity. Victorian forestry has many enemies,

and its history is one long conflict with settlers and the lands department.

#### THE STATE ELECTRICITY COMMISSION

The State Electricity Commission has one full-time and three part-time Commissioners. Other enterprises include the State Accident Assurance Office, the Titles Office, and the State Savings Bank.<sup>3</sup> It has control over its staff and fairly complete independence, but gets its loans from the state. This is because its function is the exploitation of fuel and water power to generate electricity, and as it has been in an experimental stage it might not have been possible to raise funds on the credit of the assets. The deficiencies for irrigation services were made up by the state, but the Treasurer refused to do this for the Electricity Commission. Hence, the original losses of interest and the deficiencies in revenue had to be made up by the Commission by borrowing so that capitalisation was increased by £1,000,000. In spite of this, it pays its way.

#### MUNICIPAL ACTIVITIES

Municipal activities are in a strong position. City development has been a marked feature of Australian social life and it has been favoured by both geographic and economic factors. Thus, city public services have been prosperous and have not needed the same assistance and subsidies as have rural undertakings. Municipal activities have been exceedingly well managed. Whether we take partially elected bodies such as the Metropolitan Board of Works, or nominated bodies such as the Melbourne Harbour Trust, we find the same economy and efficiency. Elective boards are less liable to interference from the Government, the system of indirect election having

<sup>3</sup> For the last, see "The Finance of Industry: Banking and Credit," in this volume.



proved most satisfactory, as the nominating bodies elect their ablest men. The policy of the central boards is thus cautious and economical, for if it were not, the responsibility would fall on the municipal councils which elect them.

Of these bodies the Melbourne Harbour Trust is freest from political control, and its financial results are remarkable. It has a sinking fund for repayment of loans, and at least 30 per cent of its capital expenditure has been made out of revenue. It is highly efficient. The Tramways Board, with its huge staff, suffers more from Government interference. Its financial position has been gravely compromised by Government attempts to secure part of its revenue to relieve the Treasury.

#### UNDERTAKINGS WITH A SOCIAL OBJECTIVE

The Licences Reduction Board is a statutory corporation to conduct both a judicial and an economic activity. It was formed in 1906 to regulate the number of hotels, which were in excess of requirements. Compensation had to be paid and an authority was required to decide judicial questions and to collect and disburse compensation funds. A statutory corporation with three members was created and this has proved satisfactory.

The Hospital and Charities Board is one of the most effective attempts to organise charity in the world. The Government grants about £300,000 a year to hospitals and charities. Formerly, any hospital could appeal for voluntary contributions, and claims were constantly conflicting. Some states ran hospitals as a Government department, but the officers were low-salaried men with low qualifications.

The Victorian Government wished to retain the voluntary system with the heads of the profession undertaking clinical work and instructing students. So the Hospitals and Charities Board was established to control charities, regulate appeals to the public, and advise the Government. It has a large membership nominated by the Government to represent various sections of the public, and has been very successful.

#### SUMMARY OF VICTORIAN EXPERIENCE

The following are the conclusions from Victorian experience in state enterprises:

(i) As a rule, economic State enterprises cannot be managed departmentally.

(ii) The statutory corporation is the only workable method, and its success depends on its independence from political control.

(iii) For municipal enterprises, statutory corporations elected or nominated by municipal units are most satisfactory.

(iv) The chief weakness in Victorian state enterprises is the attempt to develop the country regardless of financial cost.

(v) It is not possible to make state enterprises completely secure from political interference. This would appear in appointments and in legislation to control the board.

(vi) If state undertakings could be secured from political interference they might work satisfactorily from an administrative view. Objections might be raised to the withdrawal of a large section of economic activity from individual responsibility. Furthermore, there is a tendency for state employees to use political power to advance their interests.